

Internal Audit Mid-Term Performance Report 2019/20 Report by the Chief Internal Auditor

1 Purpose of Report

- 1.1 The purpose of this report is to inform the Audit Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2019, towards completing the Internal Audit Annual Plan 2019/20. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

2 Background

- 2.1 As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- In support of the Council's vision, values and priorities.
 - As a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
 - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.
- 2.2 Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.
- 2.3 The Internal Audit Annual Plan 2019/20 that was approved by the Audit Committee on 12 March 2019 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 2.4 Internal Audit assurance services are also provided during the year to the Midlothian Health and Social Care Integration Joint Board, and a statutory annual internal audit opinion is provided to its respective Management and Board/Audit and Risk Committee to meet its obligations.

3 Half Year Results Against Internal Audit Plan 2019/20

- 3.1 The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of auditor resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.
- 3.2 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with its programme of work to deliver the approved Internal Audit Annual Plan 2019/20. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, those scheduled for the second half of the year are not shaded, and those audits that have not been delivered as planned are marked *.
- 3.3 The Internal Audit function has experienced reduced output arising in the main from the extraordinary impact on staff resources of corporate fraud investigations during the first half of the year. The most significant variations from Plan during the first half of the year to 30 September 2019 are as follows:
- Business Planning, Budget Setting and Monitoring (Assurance - Risk) – Report scheduled 3rd Quarter;
 - Procurement and Management of Contracts (Assurance - Risk) – Report scheduled 3rd Quarter;
 - Social Care Income Charging, Billing and Collection (Assurance - Cyclical) – Report scheduled 3rd Quarter;
 - Commercial Rents (Assurance – Carried Forward) – Report scheduled 3rd Quarter
 - Electronic Payments Systems (Assurance – Carried Forward) – Work rescheduled to 3rd Quarter
 - EU Funded Programme Tyne Esk LEADER (Legislative and Other Compliance) – Report scheduled 3rd Quarter.
- 3.4 The continuous audit approach, in accordance with the Internal Audit Strategy approved by Audit Committee on 12 March 2019, enables Internal Audit to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery. For example, Business Transformation Board, Capital Planning and Asset Management Board, Learning Estate Strategy Board, and Information Management Group. The continuous audit approach is applied to non-MLC Internal Audit work for the Midlothian Health and Social Care Integration Joint Board.

4 Remaining Internal Audit work in 2019/20 Plan

- 4.1 The Internal Audit staff resources of 5.64 FTE taking account of the shared Internal Audit services arrangement with Scottish Borders Council comprises Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 0.42 FTE Interim Internal Auditor), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), all of whom are CCAB/CIIA professionally qualified experienced auditors, plus Fraud and Audit Officer (2.0 FTE) all of whom are qualified experienced fraud investigators. The Internal Audit activity is aligned to the Corporate Fraud activity to provide assurance and compliance services.

- 4.2 The Internal Audit programme of work for the six months from October 2019 to March 2020, to complete the delayed work and incorporate the remaining planned audit work, requires additional Internal Audit resources within this period to deliver the Internal Audit Annual Plan 2019/20 in full i.e. the continuation of the Interim Internal Auditor to offset the full deployment of the two Fraud and Audit Officers on investigations and other corporate fraud work (non-Internal Audit work). Additional budget is being made available. No change is proposed to the Audit Plan that would require approval by the Audit Committee.
- 4.3 The Internal Audit work will continue to be reported to the Corporate Management Team and to the Audit Committee. The Internal Audit Work reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.
- 4.4 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report which will also provide the statutory annual Internal Audit opinion on the levels of assurance based on audit findings over the year.

5 The Local Authority Accounts (Scotland) Regulations 2014

- 5.1 The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector (PSIAS)*. The standards require internal audit to have suitable operational independence from the authority.
- 5.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

6 Public Sector Internal Audit Standards (PSIAS) and Quality Assurance & Improvement Plan (QAIP)

- 6.1 The MLC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (responsibility, independence, proficiency, quality);
 - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

- 6.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Internal Auditor, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 6.3 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2019/20. The results and any associated improvement actions will continue to be reported to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.
- 6.4 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Highland Council in March 2018 and the results were outlined in the Internal Audit Annual Assurance Report 2017/18 reported to the Audit Committee in June 2018. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, indicates that Midlothian Council will be reviewed by East Renfrewshire Council in 2022 and will review East Lothian Council in 2022.

7 Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG) Annual Report 2018

- 7.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 7.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams (2018 at Appendix 2).
- 7.3 In particular, the Audit Committee may wish to note that:
- The Group considers learning and development needs and procures training for its members via its Training Sub-Group;
 - Working groups are set up to consider time-specific matters of interest; such as the development of the 'peer review' approach for the periodic (at least 5 yearly) External Quality Assessment (EQA) against the Public Sector Internal Audit Standards (PSIAS); and
 - Sub-groups are in place to deliver specific remits e.g. Computer Audit (CASG) and Counter Fraud (SLAIG).
- 7.4 The Chief Internal Auditor has been a member of its Management Committee for many years, including Chair 2014-2016, and attends quarterly meetings. One of the Internal Auditors is a member of CASG, and the Fraud & Audit Officers are members of SLAIG; thus attend those Sub-Group regular meetings. The Chief Internal Auditor, Principal Internal Auditor, two Internal Auditors and two Fraud & Audit Officers attended all or part of the SLACIAG Conference in June 2019, which had the theme of 'Connections Collaborations Catalysts', to hear from a range of engaging speakers and to participate in workshops.

8 Report Implications

8.1 Resource

There are auditor resources in place and additional budget is being made available to achieve the Internal Audit Annual Plan 2019/20 to enable the Chief Internal Auditor to provide the statutory audit opinion. Budget monitoring of the Internal Audit function is carried out to ensure service delivery is managed within available financial resources.

8.2 Risk

The Objectives of Internal Audit are set out in its Charter. "As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk".

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2019/20, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered, to ensure the Plan is formulated on a risk-based approach.

If planned Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council. This will be mitigated by way of the additional budget for auditor resources, workforce planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

8.3 Single Midlothian Plan and Business Transformation

Themes indirectly addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

8.4 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan (Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the gap in economic circumstances) by providing an independent and objective annual assessment of the adequacy of the entire control environment, Internal Audit supports the Council to achieve its objectives.

8.5 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year assists the Council in improving its performance and outcomes which are designed to maintain and / or enhance internal controls, governance arrangements and risk management.

8.6 Adopting a Preventative Approach

Having robust internal controls, governance arrangements and risk management in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Internal Audit assurance and consultancy activity is designed to improve operations and assist the Council in accomplishing its objectives.

8.7 Involving Communities and Other Stakeholders

Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives for the benefit of Midlothian's communities and other stakeholders.

8.8 Ensuring Equalities

There are no direct equalities issues with regard to this report.

8.9 Supporting Sustainable Development

There are no direct sustainability issues with regard to this report.

8.10 IT Issues

There are no direct IT issues with regard to this report.

8.11 Consultation

Midlothian Council's Corporate Management Team were consulted on performance at half year and the proposals relating to the additional resources required to deliver the Internal Audit Annual Plan 2019/20 in full.

9 Recommendations

The Audit Committee is therefore asked to:

- a) Note the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2019/20 by the mid-year point; and
- b) Acknowledge the additional auditor resources for the second half of the year to enable full delivery of the approved Internal Audit Annual Plan 2019/20.

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